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SUBJECT: SCENESETTER: CODEL BURTON JUNE 4-6 VISIT TO PANAMA

¶1. (U) This message is sensitive but unclassified. Please protect accordingly.

¶2. (SBU) Embassy Panama extends its warmest welcome on your upcoming visit to Panama. You will have the opportunity to review a wide range of issues, including bilateral security and the economic environment. Your visit here, as the government of President Martin Torrijos enters its tenth month, signals the interest of the United States in strengthening our excellent relations with Panama. (Secretary of State Powell visited Panama on November 3, 2003, to attend Panama's Centennial celebrations, and again on September 1, 2004, to attend the presidential inauguration. Secretary of Defense Rumsfeld visited Panama November 13-14, 2004, to discuss ongoing security and law enforcement cooperation and Canal issues.) On May 18, 2005, President Torrijos announced his long-awaited Social Security legislative reform package, one of his government's primary objectives. The proposals are pending approval in the Legislative Assembly. Your visit follows an April 28 visit by President Martin Torrijos to the United States during which he met with President Bush to discuss cooperation in security, trade and democratic institution-building. Panama's exemplary cooperation on a wide range of issues including security, law enforcement policy, and trade -- promises to reach new levels under the Torrijos government. Elected as a modernizing, anti-corruption reformer by the largest post-1989 plurality on record, Torrijos has made clear that his most important foreign policy priority is relations with the United States and that he intends to deepen our mutual focus on counter-terrorism capabilities, combating international criminal networks, and expanding trade and investment. Torrijos is the first Panamanian president elected after the hand over of the Canal on December 31, 1999, and the final withdrawal of the U.S. forces. U.S. relations with Panama are more mature than in the past, based on mutual economic and security interests.

A Brief History

¶3. (U) From its founding in 1903 until 1968, the Republic of Panama was a constitutional democracy dominated by a commercially-oriented oligarchy focused on Panama as an entrepot for international trade. In October 1968, Dr. Arnulfo Arias Madrid, the deceased husband of former Panamanian President Mireya Moscoso, was deposed from the presidency by the Panamanian military. General Omar Torrijos (d. 1981), the deceased father of current Panamanian President Martin Torrijos, became dictator and was succeeded in infamy by General Manuel Noriega. On December 20, 1989, President George H.W. Bush ordered the U.S. military into Panama to restore democracy, protect AmCits and their property, fulfill U.S. treaty responsibilities to operate and defend the Canal, and bring Noriega to justice. Noriega is still serving a 30-year sentence in Miami for drug trafficking. Panama has held free and fair elections three times since 1989, transferring power from/to opposition parties.

President Torrijos and a New Generation

¶4. (SBU) In his September 1, 2004, inaugural address, Torrijos clearly identified his government's principal priorities as sustainable economic development and poverty alleviation, investment, fiscal reform, increased government transparency, and job creation. The new president and his Democratic Revolutionary Party (PRD) -- largely purged of its former anti-democratic, anti-U.S. tendencies and holding an absolute majority in the Legislative Assembly -- have faced large challenges from the outset: a serious budget shortfall and tide of red ink left by the outgoing government; urgently required action to right the nation's foundering retirement and medical

system (the Social Security Fund); restoring public confidence in government institutions and the rule of law; completing the Free Trade Agreement negotiations with the United States; launching a more activist and "coherent" foreign policy (including closer relations with Western Europe and a review of Panama's relations with Taiwan and China); and a decision on how to proceed with Canal expansion, leading to a 2005 national referendum. The GOP has responded to the deficit with belt-tightening measures, including passing an unpopular fiscal reform package in late January. Reform of the social security system is currently under discussion, with legislative action likely in May 2005.

15. (SBU) Martin Torrijos Espino won the presidency on May 2, 2004, in general elections that amounted to a landslide (47% of the popular vote), which propelled his Democratic Revolutionary Party (PRD) into control of the Legislative Assembly (41 out of 78 legislative seats). Torrijos has surrounded himself with young, primarily U.S.-educated professionals like himself, and has marginalized "old guard" supporters of former President Ernesto Perez Balladares (1994-99). Torrijos and those closest to him have indicated that they intend to work closely with U.S. officials, especially on security, law enforcement, trade and investment. Overall, his cabinet appointments have been inspired choices -- many of them technocrats with a pro-U.S. outlook. Most (but not all) of Torrijos's cabinet-level and other high-level appointments are respected professionals without excessive baggage from Panama's 21-year military dictatorship or the PRD's anti-U.S. faction, a promising sign. Anticipated pressures from a well-entrenched oligarchy could frustrate the Torrijos administration's reform plans.

16. (SBU) After campaigning on a "zero-corruption" platform, Torrijos launched a number of anti-corruption investigations and initiatives in the opening weeks of his administration. His most controversial action was the removal and replacement of Supreme Court President Cesar Pereira Burgos, who had passed retirement age, in a bid to clean up Panama's politicized Supreme Court. The controversy over corruption within the Supreme Court continues to play out in the media, especially after a recent spate of characteristically egregious rulings. In March 2005, President Torrijos formed a commission to make proposals on justice sector reform. The Embassy supports this effort, and the Embassy continues to build its strong Good Governance initiative, which began with Ambassador Watt's 2003 speech against official corruption. That speech resonated firmly with Panamanians from all walks of life and generated front-page headlines. The Ambassador has also stated publicly that poverty could pose dangers for democracy and that skewed income distribution and social injustice increase the appeal of unscrupulous populist demagogues. The Embassy currently supports good governance activities directed toward judicial reform, civic education, business ethics, and strengthening the anti-corruption prosecutors' institutional capacity. An important element of the Embassy's Good Governance initiative is its visa revocation program. Based on Embassy recommendations, the State Department in summer 2004 revoked the U.S. visas of two former senior GOP officials, which provoked a spate of mostly favorable press commentary and huge support (85% according to one poll) from average Panamanians. A third visa, of former Maritime Authority Director Bertilda Garcia, was revoked in early March. Several other corrupt officials have lost their visas for money laundering or related issues and we are ever alert to ensure that other corrupt officials who have harmed USG interests may not travel to the United States.

----- Security and Law Enforcement Policy -----

17. (SBU) President Torrijos came to office with a clear focus on security, particularly regarding canal and maritime security, and combating terrorism and transnational crime. His government is taking steps to impose order, efficiency, and organization on Panama's security agencies. On May 12, 2004, the U.S. and Panama signed a Proliferation Security Initiative (PSI) Shipboarding Agreement, underscoring the excellent bilateral cooperation that the new GOP has assured us will continue or improve. The Government of Panama (GOP) must sort out its financial priorities to address issues such as how to adequately patrol Panama's long Caribbean and Atlantic coastlines and how to secure Panama's porous border with Colombia against guerrilla infiltration.

18. (SBU) A centerpiece of U.S.-Panamanian relations in recent years has been a steadily improving law enforcement and security relationship. Close bilateral cooperation with our Panamanian counterparts has yielded many successes

including, but not limited to, steadily increasing narcotics seizures, more sophisticated investigations, an active maritime law enforcement relationship, the development of specialized units, and an enhanced ability to combat money laundering and other illicit financial flows. While the USG's relationship with the Torrijos Administration has been positive, there remains work to be done to solidify these gains and enhance the effectiveness of joint operations. Panama's law enforcement institutions remain weak and all suffer from a paucity of resources and limited professional capacity. Through our limited assistance programs, we are trying to address these shortcomings, but real success will require additional resources from the Panamanian budget.

Security Cooperation

19. (SBU) Panama's former sovereignty sensitivities are slowly receding with recognition that the challenge of securing the Canal and Panama's borders requires a more mature and collaborative bilateral relationship. Panama early on gave political support to the Coalition of the Willing. It signed and, on October 8, 2003, ratified a bilateral Article 98 Agreement. Related to Canal and border security, Panamanians have become much more willing to accept mil-to-mil security training, equipment, and other assistance, as was shown during the August 2004 multinational Panamax naval exercise that centered on Canal defense. The GOP has welcomed Ambassador Watt's initiative to increase the number of Medical Readiness Exercises and other DOD humanitarian programs that provide much-needed assistance to rural Panamanians. During the 2003 New Horizons exercise, both the GOP and local press praised U.S. military for constructing schools and clinics. Together, these programs highlight the humanitarian side of the U.S. military and foster positive public perceptions of the USG. New Horizons 2005 has just ended and received wide and favorable press coverage. In May 2005, a U.S. HVT completed a successful four-day transit of the Canal.

Our Third Border

110. (SBU) Panamanian planning, layered defenses and security resources are generally well-regarded, although the Canal remains an attractive and vulnerable threat to terrorists. Continued U.S. training, equipment and other assistance reduce GOP vulnerabilities to any potential terrorist attack. To protect water resources, the Panama Canal Authority (ACP) has committed to match dollar-for-dollar AID's three-year \$2.5 million integrated watershed management program. Panama committed to a robust maritime security agenda, which led to its timely adoption of the new International Maritime Organization (IMO) International Shipping and Port Security (ISPS) Code, which entered into force July 1, 2004. In May 2004, Panama signed a shipboarding agreement with the United States to support the Proliferation Security Initiative (PSI). Despite significant progress, Panama continues to be an important transit point for drug smugglers, money launderers, illicit arms merchants, and undocumented immigrants heading north.

Maritime Security

111. (SBU) The GOP has sent strong signals that it intends to clamp down on what it calls abuses countenanced by previous governments in administering Panama's open ship registry and mariner identification documents. Panama's ship registry now is the world's largest and comprises around one-quarter of the world's ocean-going fleet (5,525 large commercial vessels). About 13% of the U.S. ocean-going cargo transits the Canal each year. Panama's seafarer registry currently licenses over 264,000 crew members. In response to our homeland security concerns, the new GOP has announced intentions to greatly improve security and transparency in documenting ships and the crews that work on them. Panama has privatized and developed some former U.S. military ports and other related facilities. Port services grew dramatically from about 200,000 containers per year in the early 1990s to 2 million by 2003. Panama now boasts the leading complex of port facilities in Latin America. We are actively discussing with GOP counterparts ways in which we can enhance maritime security through more robust information sharing--a subject that will likely come up during your visit.

International Trade and Investment

112. (U) Panama's approximately \$14 billion economy is based primarily on a well-developed services sector that accounts for roughly 80% of GDP. Services include the Panama Canal, banking and financial services, legal services, container ports, the Colon Free Zone (CFZ), and flagship registry. Panama also maintains one of the most liberalized trade regimes in the hemisphere. U.S. bilateral trade with Panama came to \$2.1 billion in 2003. U.S. exports were \$1.8 billion and imports were \$301 million in 2003. The stock of U.S. Foreign Direct Investment (FDI) in 2002 was \$20 billion. U.S. FDI is primarily concentrated in the financial sector. Per capita GDP is around \$4,000.

Free Trade Agreement

113. (SBU) Former President Moscoso pushed to move forward quickly on a bilateral Free Trade Agreement (FTA). Negotiations began in April 2004; to date, the U.S. and Panama have held eight negotiating rounds. The last round, held January 31 to February 6 in Washington, failed to close the agreement, primarily because of Panamanian agricultural sensitivities surrounding rice, poultry, and pork. Panama also has a strong desire to increase its existing sugar quota. A final high-level meeting probably will be scheduled by summer 2005 to resolve the principal remaining issues. The Torrijos administration views a bilateral FTA as imperative to attract investment, increase exports, and make Panama competitive with the CAFTA countries. Jerry Wilson, President of Panama's Legislative Assembly, has commented to Embassy officials that, once negotiated, the FTA agreement "will pass."

Canal Stewardship

114. (SBU) During the past five years, the Panama Canal Authority (ACP) has proven itself an able administrator, turning the Panama Canal into an efficient and profitable business. Since the 1999 hand over, the ACP has reduced the average Canal transit times by one-third (from 36 hours to 24 hours), has reduced accidents in Canal waters significantly, and has overseen large-scale upgrade and maintenance projects, such as widening the Gaillard Cut to allow simultaneous two-way transits. The ACP also has increased revenues, which in FY 2004, exceeded \$1 billion for the first time. The Government of Panama received \$332 million from the Canal in FY 2004 (payments for government services, tolls, and profits).

Canal Expansion

115. (SBU) The Torrijos team plans to make Canal expansion a top priority. The proposed Canal expansion project to construct a third-set of locks has an estimated price tag of \$4-6 billion and is expected to take 8-10 years to complete. It expects the project to be a transforming event for Panama that will provide jobs and set the tone economically for years to come. Given the driving forces of international shipping -- containerization, construction of "post-Panamax" mega-ships currently unable to traverse the Canal, and growing trade between East Asia and the U.S. eastern seaboard -- the expansion is central to maintaining the Canal's future viability. The expansion is expected to be financed through a combination of Canal revenues, new user fees, and bridge loans. However, Panama's constitution requires a national referendum first be submitted to the Panamanian people for their approval. GOP officials have stated this referendum will most likely occur in late 2005 or early 2006. A May 2005 public poll showed that 70% of Panamanians polled supported Canal expansion.

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